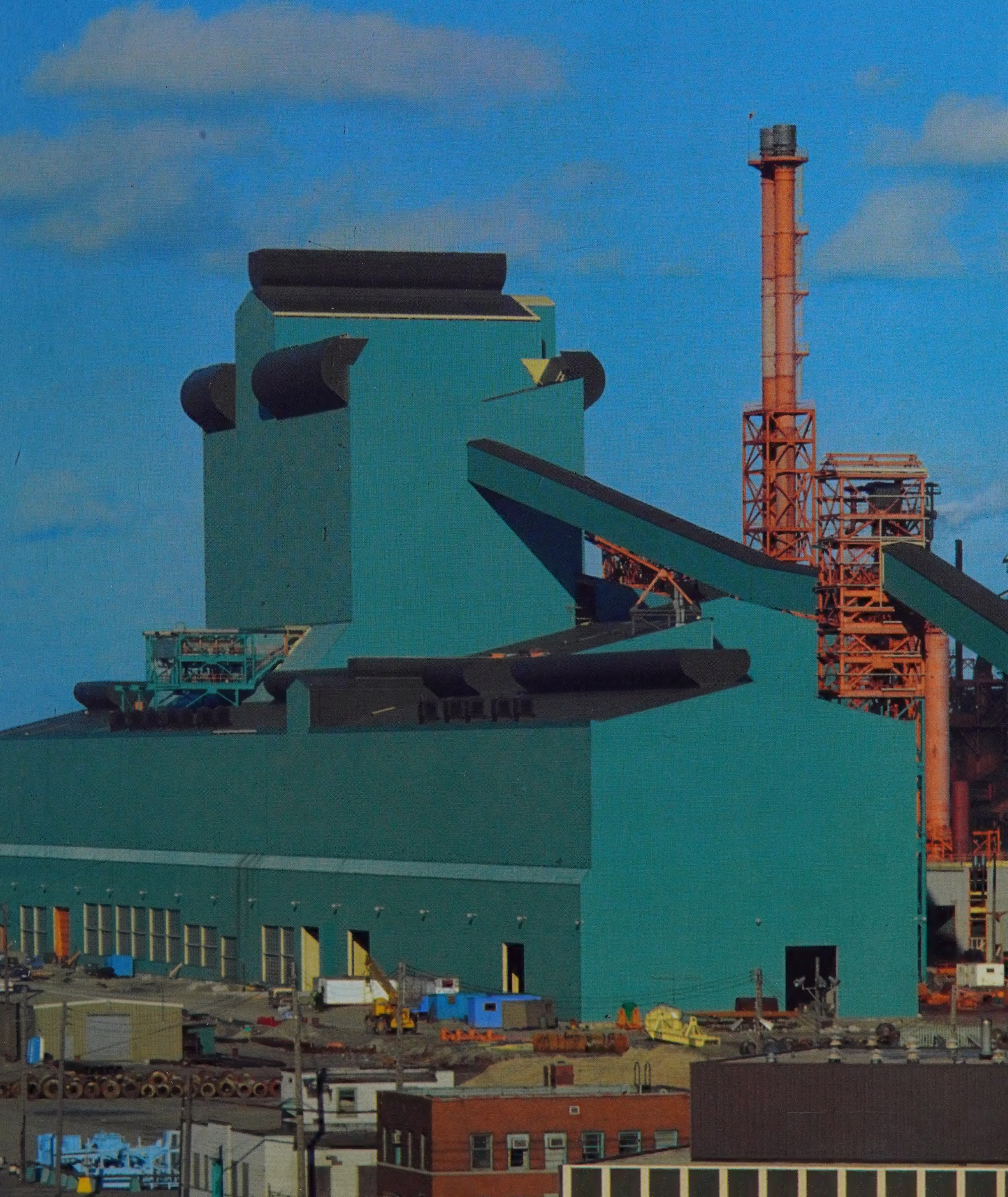
DOMINION FOUNDRIES AND STEEL, LIMITED
1977 ANNUAL REPORT



Cover:

Dofasco's new steelmaking plant, currently under construction, stands 25 storeys high on the Company's bayfront property in Hamilton. The new plant represents the largest single investment in a facility in the Company's history. When completed later in the year, the plant will be one of the most technologically advanced installations of its kind in the world.

Right:

The support ring for the new oxygen furnace is moved into position during construction at Dofasco's new steelmaking plant. The huge furnace (shown below the ring) is the heart of the new facility and is designed to make 250 tons of steel per heat.

Highlights

	1977	1976†	Increase (Decrease)
Production of ingots and castings – net tons*	**3,333**	3,335	(.1%)
Shipments of flat rolled products and steel castings – net tons*	**2,596**	2,652	(2.1%)
Sales*	**$919,036**	$904,958	1.6%
Net income*	**$ 68,518**	$ 66,699	2.7%
Net income – per common share	**$ 4.01**	$ 4.17	
Net income – percent of sales	**7.5%**	7.4%	
Net income – percent of average capital employed	**6.3%**	7.5%	
Net income – percent of average common shareholders' equity	**12.9%**	14.6%	
Dividends declared – total*	**$ 29,829**	$ 24,084	23.9%
Dividends declared – per common share	**$ 1.55**	$ 1.46¾	5.6%
– per $100 preferred share	**$ 4.75**	$ 4.75	—
– per $25 preferred share	**$ .744**	—	
Capital expenditures – manufacturing*	**$155,911**	$ 85,749	81.8%
Capital expenditures – mining*	**$ 4,252**	$ 27,647	(84.6%)
Depreciation*	**$ 47,063**	$ 42,108	11.8%
Average number of employees	**11,300**	11,500	(1.7%)
Number of holders of common shares	**15,196**	15,298	(.7%)

*in thousands

†The 1976 figures have been restated to give effect to the change in accounting policy which is fully described in Note 1(a) of the Financial Statements.

On pourra se procurer le texte français de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

The annual meeting of shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 28, 1978, at 12:00 o'clock noon.

DOFASCO

Alan B. Goddard
Director - Communications and Public Affairs

Dominion Foundries and Steel, Limited
P.O. Box 460, Hamilton, Ontario L8N 3J5 (416) 544-3761
Res. 945-3322 (Grimsby)

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Partner, Campbell, Godfrey & Lewtas, Toronto

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Assistant Comptroller

President's message

Our performance in 1977 was satisfactory considering the rather difficult year experienced by the Canadian economy and the steel industry in general. However, our returns on investment and shareholders' equity are much lower than desirable.

Ingot production and flat rolled steel shipments were only slightly below the record levels set in 1976. We had record sales of $919 million. Despite this, income before income taxes declined by 7%, as price increases during the year did not fully offset rising costs.

Outlook
Strong demand for our products throughout the fourth quarter of 1977 continued into the first quarter of this year. Canadian domestic demand for steel should be approximately 11.6 million tons in 1978, a 7% increase over 1977. The portion of this market we can secure will depend to a large extent on the level of Canadian imports of steel during the year.

The international steel situation is poor with a large number of overseas steel mills operating at below 75% capacity. Many countries use their steel industry as an instrument of social and economic policy to maintain employment and to attract foreign exchange. To help keep their mills operating, some producers have been either dumping steel, that is exporting at prices lower than those charged in their home markets, or in some cases selling at prices below their cost of production. North American steel producers have found it extremely difficult to compete against such imports from abroad.

The United States Government has responded to this problem by introducing a system which will automatically trigger government dumping investigations should steel import prices drop below certain base levels. We are concerned that Canada could now become a target for the dumping of foreign steel originally intended for the U.S. market. In response to this industry concern, the Canadian Government is studying procedures to monitor the dumping of imported steel into Canada.

Government and the Economy
We believe the first priority of government, at this time, should be to encourage economic growth. This will require more Federal-Provincial cooperation and coordination than ever before and much greater restraint in government expenditures. At the First Ministers' Conference held earlier this year in Ottawa many of this country's leaders expressed a recognition of this need.

Governments must also develop policies throughout their ministries which are consistent with economic growth. Often, this has not been the case. For example, while the Federal Government's fiscal measures introduced last October were designed to stimulate growth, other legislation such as the proposed Competition Act could inhibit economic growth by adding to the uncertainty of doing business.

Expansion
Our business is basically to supply steel to the Canadian market and we are optimistic about the long-run demand for our products. In order to serve this growing market for steel, we are currently involved in a major expansion of our production facilities. To be economically viable, new production units must be built with larger capacities than can be immediately utilized. In addition, they cannot all be built at once because of the enormous capital investment required. This results in capacity imbalances between operations causing a lower return on investment during the early years of a major expansion. However, if a company does not grow with the market, its share, and in the long run its profitability, must gradually decline.

On behalf of the Board of Directors, I would like to express our appreciation to our shareholders and customers for their continued support and to our employees for their excellent performance during 1977.

Hamilton, Ontario
March 17, 1978

F. H. Sherman
President

Financial

Results for 1977 were quite favourable considering the generally poor economic climate experienced throughout the world steel industry. While production and shipping volumes were reduced only marginally, profit before tax fell by about 7%. Increased selling prices necessary to reduce the impact of rising plant operating costs and financial expenses prevented a greater decline.

Net income per common share was $4.01. This was lower than last year's earnings of $4.17 but better than the $3.46 earned in 1975.

Financial Position

Dofasco's working capital rose sharply during 1977 because of the issue of $75 million in 20-year 9⅜% sinking fund debentures and the private placement of $150,000,000 of $25 preferred shares. These funds, most of which are still held as short term investments, will be used together with funds generated from the Company's operations for financing our expansion program and for general corporate purposes.

Subsidiaries

Because of reduced market demand, sales of railway rolling stock by National Steel Car were $59.6 million, down from $110.8 million in 1976. A strike at National began on January 12, 1978 and has not yet been settled.

Following a poor year due to weak markets in 1976, Prudential Steel of Calgary experienced modest improvement in its 1977 performance.

BeachviLime Limited had a good year with increased sales. Approximately one half of this company's production of lime and limestone products is consumed at Dofasco and the remainder is sold to other users.

Shipments of prepainted steel from Baycoat Limited, in which Dofasco has a 50% ownership interest, increased during 1977.

Capital Expenditures

During 1977, capital spending on manufacturing and mining projects totalled slightly more than $160,000,000 after deducting investment tax credits of $8,500,000. Dofasco considers it appropriate to deduct these tax credits from the cost of new construction during the year. As a result, depreciation expense will be reduced in future years. The alternative would have been to use these tax credits to reduce our tax expense in the current year, thereby showing greater 1977 earnings.

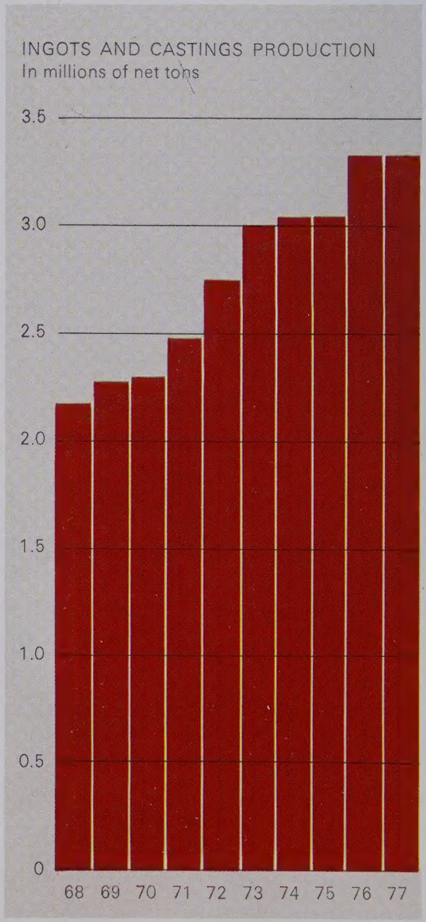
Approximately three quarters of our capital expenditures in 1977 were devoted to three major projects – a second oxygen steelmaking plant, a new battery of coke ovens, and eight new soaking pits. As of December 31, we estimated that $170,000,000 will be required to complete these and other authorized manufacturing and mining projects of the Company and its subsidiaries.

Inflation

One of the major effects of inflation on the Company has been the impact of the cost of inventories on gross profits. In a positive move, the Federal Government has allowed a write-off of 3% of opening inventories for tax purposes in 1977 and subsequent years. This has helped offset the effect of inflation on Canadian companies but it did not go far enough. For example, inflation has increased Dofasco's inventory costs by almost $30 million or 15% over the past year.

Production and planning

Our plant operated at near record levels throughout 1977, producing 3,333,000 tons of ingots and castings. This performance was achieved through the continuing efforts of all employees in maximizing the productivity of existing facilities, since no new primary production



equipment came on stream in 1977.

Additional finishing equipment which went into operation at Dofasco during 1977 includes:

- a 66" slitter which doubled hot strip slitting capacity;
- an expansion of our open coil annealing facilities which increased capacity by 18%;
- an extension of our #1 continuous heat treating line adding 30% to production capacity for electrical steels.

Major projects under construction and scheduled for completion in 1978 include:

- a second basic oxygen steelmaking shop with an initial capacity of 1 million ingot tons per year. The capacity of this plant can later be increased in stages to 4.5 million ingot tons at relatively low cost;
- a battery of 35 coke ovens to increase coke-making capacity by 35% to 1,796,000 tons of coke per year which is enough coke to support an annual production rate of 4.2 million ingot tons of steel;
- installation of 8 new soaking pits and a new crop shear which should increase annual hot rolling capacity by 400,000 tons to 3.7 million ingot tons per year.

A third coating line, which went into production during 1977, increased capacity at Baycoat Limited by 50%.

We are also expanding operations at two of our subsidiaries. At Prudential Steel of Calgary new equipment, some of which is now in operation, will broaden this company's finishing capabilities.

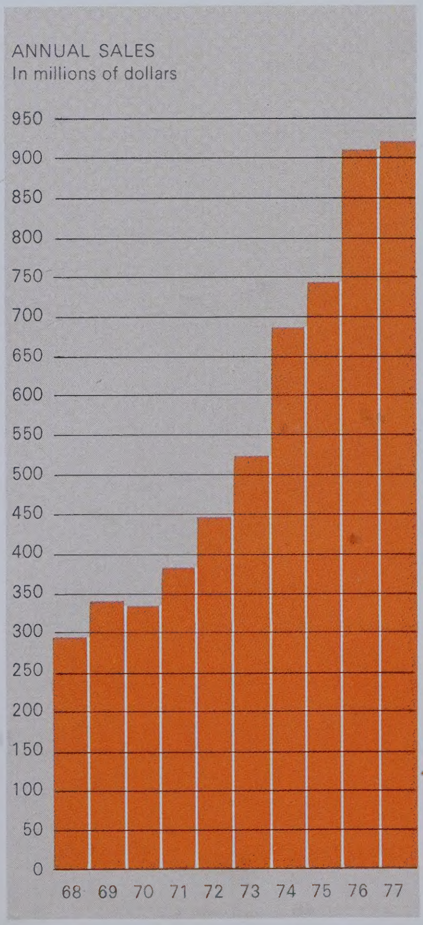
At BeachviLime, a new high efficiency kiln has been completed and is currently undergoing a break-in period. BeachviLime, through a subsidiary, has recently acquired a dolomitic limestone quarry operation near Guelph, Ontario.

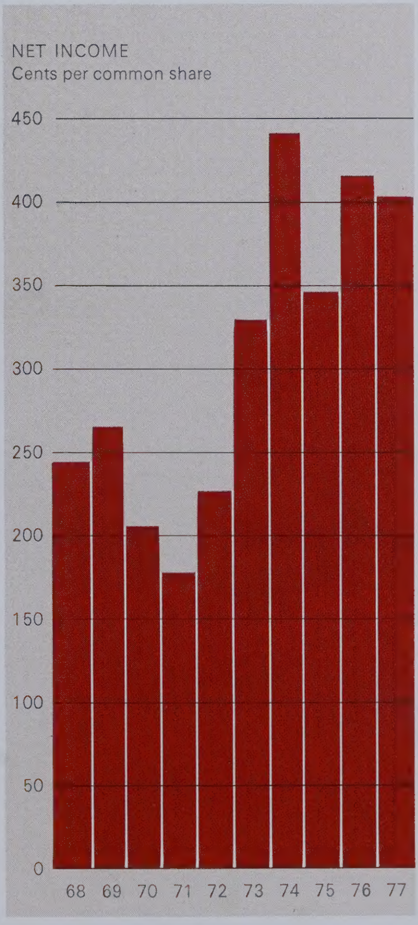
Commercial

Higher selling prices, necessary to offset increased costs, were the major factor in increasing consolidated sales to a record $919 million. Flat rolled steel shipments were 2,570,804 tons, a 2.1% decrease from record levels of 1976.

The Canadian flat rolled market remained mixed in 1977. Significant increases in shipments to the service centre and automotive industries largely offset declines to most other flat rolled consuming areas. Automotive was by far the strongest sector and some improvement was realized in the construction sector as the year went on. Galvanized shipments moved ahead of 1976 levels while plate, hot rolled and cold rolled shipments declined. Tin plate shipments were about equal to last year's level.

Casting shipments decreased 1.9% to 25,413 net tons, reflecting continued soft markets for railway cars and capital goods.





Outlook

Canada's economic outlook for 1978 remains uncertain although a broader base for recovery seems to be developing. We expect business confidence to increase and that the improvement in capital investment which we saw in 1977 will pick up momentum later this year. Energy related investment will provide a good base for construction activity in 1978.

We look for gains in flat rolled shipments to construction and related industries. Recent personal income tax cuts should help to maintain good levels of consumer spending. We expect car sales this year to remain near 1977 levels and more consumer dollars to be directed towards the purchase of appliances and other durable goods.

National Steel Car ended the year with an improved order position compared to the previous year. Total production for the year will depend on the receipt of additional major orders and on the duration of the strike at National.

New finishing equipment at Prudential Steel will broaden their market to include oil well casing products. The markets for these products are currently very strong due to drilling activity in the western Canadian oil and gas industry.

The sales outlook for BeachviLime is good and reflects expected strong demand for limestone and lime products this year. When their new high efficiency kiln is in full operation, this company will be in a better position to serve an expanding market for lime and limestone products.

The outlook for pre-coat shipments from Baycoat remains good with further increases expected in 1978.

Raw materials

The Company's requirements for iron ore pellets are provided primarily from mines in which Dofasco has ownership interests – the Wabush, Adams, Sherman and Eveleth Mines. During 1977, the Adams Mine achieved record production of approximately 1.2 million tons.

Our mining interests were expected to provide Dofasco with the entire 1977 requirements of approximately 3.8 million gross tons. However as a result of start-up problems in the Eveleth operation as well as a four month strike in the Lake Superior iron ore industry, we received only approximately 200,000 of 675,000 tons of pellets expected from this source. The shortfall was met from an open market purchase and from inventory on hand. Full budget production has been scheduled for Eveleth in 1978 and recent operating results are encouraging.

Dofasco's estimated 1978 pellet requirements are approximately 4.2 million gross tons. We expect this will be met by our share of production from the four mines and inventory on hand at our plant.

Based on current annual mine production levels, it is estimated that the proven ore reserves are sufficient to enable production to continue for 22 years at Adams, 23 years at Sherman, 63 years at Wabush, and 45 years at Eveleth.

In anticipation of a strike by U.S. coal miners which began early in December, 1977, we obtained additional quantities of coal during the year and now have sufficient quantities on hand to maintain full production for the first six months of 1978. During 1977, Dofasco's requirements for metallurgical coking coal were met largely from purchase contracts with traditional sources in the United States as well as newer sources in western Canada, and from Itmann Coal of West Virginia in which Dofasco has a 9% ownership interest.

In 1977, we began testing some Nova Scotia high volatile coal with a view to obtaining a long term contract for coal from this Canadian source. This testing program is continuing. We are also investigating other sources of high quality metallurgical coal in western Canada and the United States in order to secure additional reliable sources.

Of Dofasco's 1978 coal requirements, estimated to be 2 million tons, we expect to receive 175,000 tons from Itmann and the remainder from a combination of contract sources and inventory on hand.

BeachviLime Limited, a wholly-owned subsidiary of Dofasco, provides the bulk of the steel operation's requirements for lime and limestone. On February 28, 1978, Guelph DoLime Limited, a subsidiary of BeachviLime, purchased a dolomitic limestone quarry near Guelph, Ontario. The new acquisition will continue to service its present customers as well as providing Dofasco with a controlled source of dolomitic limestone and lime.

Part of the coke oven gas cleaning system on No. 6 coke oven battery. The new complex – 35 ovens and associated by-product facilities – will increase our coke-making capacity by 35% to an estimated 1,796,000 tons of coke per year, enough coke to support an annual production of 4.2 million ingot tons of steel. The first push from No. 6 Battery is scheduled for some time in June.

Research and product development

Research activity in 1977 emphasized reduction of operating costs. New controls in our coke oven by-product plant have increased efficiency and lowered costs. Also, coke consumption was decreased by operating our blast furnaces to produce molten iron with a lower silicon content. Design improvements doubled the life of lance nozzles used in our steelmaking furnaces. We also developed a technique for using chemical catalysts to increase the amount of oil which can be injected into our blast furnaces as a replacement for coke.

Research responding to the need for lighter and more fuel-efficient automobiles led to a new formable steel which develops high strength after forming and paint baking. As well, we extended our work in the under-car corrosion field by carrying out an industry-wide study commissioned by the American Iron and Steel Institute.

Major technical and commercial studies dealing with steel in housing were continued in 1977 by the product development group. This is part of a long-term effort to extend the use of steel in the residential construction market. A light weight and cost-effective steel floor framing system for mobile homes was designed and these components are now in commercial production.

Much of the work in the railway field in 1977 involved production development and refinement of existing designs. Some specific projects dealt with the LRC (Light, Rapid, Comfortable) passenger locomotives and coach trucks ordered by the Federal Government as well as construction of prototype self-steering freight car trucks for trial by Canadian National Railways. Testing confirmed that Dofasco-designed trucks for Ontario's GO

Transit Bi-Level commuter cars provide superior stability and a very comfortable ride.

The environment

During 1977, much of our continuing effort in the area of environmental control was centered in the iron and steel producing operations.

Our No. 1 steelmaking plant is being equipped with new systems to collect emissions produced during charging and tapping of the basic oxygen furnaces. The new steelmaking plant now under construction will be fully equipped with environmental control equipment unexcelled anywhere. A new clarifier to clean the gas scrubber water from both steelmaking facilities is under construction.

Construction of a system to capture casting emissions from our No. 2 and No. 3 blast furnaces is under way. This system will be similar to the one at our No. 1 blast furnace which was the first and is still the only basic iron blast furnace in North America with such emission controls.

Additional facilities for recycling of cooling water for the blast furnaces are under construction. This will increase efficiency and reduce the load to sewers.

Control of dust on coal storage piles has been greatly improved by construction of water spray towers to wet the piles. Eight towers have been completed and three more are under construction.

The new coke ovens will be controlled for pushing and charging operations and for desulfurizing the coke oven gas produced.

A red-hot steel strip passes through the seven finishing stands in Dofasco's hot mill. Installation of a new crop shear and additional soaking pits, when completed, will increase the capacity of the hot mill by approximately 400,000 tons per year.

brief presented to Ontario's Royal Commission on the Status of Pensions.

We continue to oppose the enactment of provincial legislation discouraging the sale of soft drinks in cans. We do agree with and support the Government's intent in trying to reduce litter and improve solid waste management. However, we believe that such legislation would create undesirable and unnecessary dislocations in employment in this province without significantly reducing solid waste and litter. The answer to these problems lies in the development of effective solid waste recycling programs and better public education to discourage littering.

Dofasco's brief to the Ontario Government Committee on Inflation Accounting recognized that inflation accounting is a new and very complex field. We stressed that any new reporting procedures should be developed on a national scale and only with careful testing and detailed input from all concerned. Until proven satisfactory, if such accounting methods are used at all, they should only supplement financial reports based on established historical cost methods.

We continued our dialogue with the Ontario Government in relation to new worker health and safety legislation. While we had a number of serious concerns regarding technical aspects of the proposed Bill, we support the intent of improved legislation in this area.

As one of Ontario's integrated steel producers, we participated in the presentation of a joint industry brief to the International Joint Commission on the Canada-United States Great Lakes Water Quality Agreement. This brief outlined the steel industry's commitment to reducing pollution in the Great Lakes and dealt with technical problems arising from the way current water quality objectives have been developed and applied.

Community and employee relations

One measure of a company's success is its contribution towards helping society meet its goals. As well as providing useful products and jobs for people and income for its shareholders, we believe that a company should be committed to the support of a wide range of community activities, both financially and through encouraging employees to volunteer their time and talent.

Our financial contributions help support a large number of varied activities across the country. Our donations committee spends considerable time reviewing hundreds of requests for financial support.

Our employees are encouraged to become active in volunteer organizations and hundreds have done so. This voluntary commitment means thousands of hours spent on community activities including helping the elderly, the young, the physically handicapped and the otherwise disadvantaged. We are proud of our employees' involvement.

Dofasco has a long-standing policy of providing up-to-date medical and benefit programs comparable to any in the industry. Our profit sharing and supplementary retirement income plans, suggestion system, recreation program and facilities, as well as our educational and training courses are further examples of our programs for employees.

1977 was the 40th year of profit sharing at Dofasco. The sharing of profits has, over the years, contributed greatly to our successful employee relations. After three years of service, employees in the steelmaking operations become participants. Each year, 11% of steelmaking profits is allocated for profit sharing. In 1977, earnings of $1,135 were credited to each member for a total of $8,528,871. An original member could have a maximum credit in Dofasco profit sharing of $115,611 at the end of 1977. Assets in the Fund at December 31, 1977 were over $146 million.

Dofasco also encourages its employees to take an active part in improving operations through its suggestion system. During 1977, over 7,500 eligible suggestions were submitted. Over 1,900 of these ideas were adopted and $214,000 was paid out for suggestions that improved operations, cut costs and reduced waste. The estimated savings to the Company for these ideas was $650,000 in the first year of implementation.

During 1977, approximately 5,500 employees and their families participated in more than 40 activities available in the Company's recreation program. To provide a central location and to meet the need for expanded facilities, work proceeded last year on a 50-acre recreation site. The first phase will provide facilities for outdoor sporting activities and is scheduled for completion this summer. Facilities in the first phase include a 400-meter track, five baseball diamonds, a soccer and football field, a golf driving range as well as change houses and parking.

Consolidated statement of income and retained earnings

for year ended December 31, 1977 (with comparative figures for 1976 – in thousands of dollars)

		1977		1976 Restated
Income				
Sales (note 11)		$919,036		$904,958
Cost of sales (excluding the following items)	$752,151		$739,144	
Depreciation	47,063		42,108	
Employees' profit sharing	8,529		8,652	
Interest on long term debt (less discount on purchase of debentures)	34,434	842,177	23,736	813,640
Income from operations		76,859		91,318
Income from investments		12,759		4,981
Income before income taxes		89,618		96,299
Income taxes		21,100		29,600
Net income for year		$ 68,518		$ 66,699
Retained Earnings				
Balance at beginning of year		$414,019		$371,218
Add:				
Net income for year	$ 68,518		$ 66,699	
Discount on $100 preferred shares purchased for cancellation	123	68,641	186	66,885
		482,660		438,103
Deduct:				
Dividends declared –				
Preferred shares	5,415		971	
Common shares (including tax on undistributed income)	24,414		23,113	
Cost of issuing $25 preferred shares	573	30,402	—	24,084
Balance at end of year		$452,258		$414,019
Earnings and Dividends per Common Share				
Net income for year (as above)		$ 68,518		$ 66,699
Deduct preferred dividends – $100 preferred		951		971
– $ 25 preferred		4,464		—
		5,415		971
Net income available for common shareholders		$ 63,103		$ 65,728
Net income per common share (after preferred dividends)		$ 4.01		$ 4.17
Dividends declared and tax thereon		$ 1.55		$ 1.46¾

See accompanying notes to consolidated financial statements

Dominion Foundries and Steel, Limited (Incorporated under the laws of Canada)

Consolidated statement of financial position

December 31, 1977 (with comparative figures at December 31, 1976 – in thousands of dollars)

	1977	1976 Restated
Current Assets:		
Cash	**$ 11,733**	$ 2,820
Short term investments at cost and accrued interest	**180,053**	55,016
Accounts receivable	**107,965**	103,358
Inventories (note 2)	**280,698**	226,287
	580,449	387,481
Current Liabilities:		
Bank indebtedness	**5,749**	7,840
Accounts payable and accrued charges	**134,113**	103,043
Amounts payable for employees' profit sharing	**6,529**	7,652
Income and other taxes payable	**6,735**	9,631
Dividends payable	**8,521**	6,301
Current requirements on long term debt (note 5)	**2,079**	120
	163,726	134,587
Working Capital	**416,723**	252,894
Fixed assets, less accumulated depreciation (note 3)	**781,322**	668,222
Undeveloped mining properties and rights, at cost	**10,069**	10,025
Investments (note 4)	**4,870**	7,209
Unamortized debenture discount and issue expense	**4,315**	3,078
Sundry assets at cost	**4,462**	4,742
Capital Employed	**1,221,761**	946,170
Deduct –		
Long term debt (note 5)	**357,000**	285,593
Income tax allocations relating to future years	**185,900**	169,600
	542,900	455,193
Shareholders' Equity	**$ 678,861**	$490,977
Represented by:		
Preferred shares (note 6)	**$ 169,811**	$ 20,166
Common shares (note 7)	**56,792**	56,792
Retained earnings	**452,258**	414,019
	$ 678,861	$490,977

On behalf of the Board:

F. H. Sherman, Director

G. H. Blumenauer, Director

See accompanying notes to consolidated financial statements

Consolidated statement of changes in financial position

for year ended December 31, 1977 (with comparative figures for 1976 – in thousands of dollars)

	1977	1976 Restated
Source of Funds:		
Operations –		
Net income for year	**$ 68,518**	$ 66,699
Depreciation	**47,063**	42,108
Income tax allocations relating to future years	**16,300**	17,700
Funds from operations	**131,881**	126,507
Increase in long term debt –		
Proceeds from debenture issue (net)	**73,500**	58,800
Increase in bonds payable	—	7,571
Increase in revolving bank loan	**2,612**	5,438
Preferred shares issued for cash (less related costs)	**149,427**	—
Common shares issued for cash	—	118
Decrease in investments (net)	**2,339**	529
Other changes (net)	**499**	(722)
	360,258	198,241
Application of Funds:		
New facilities and equipment (after deducting investment tax credits, 1977 – $8,479; 1976 – $4,773) –		
Manufacturing	**155,911**	85,749
Mining	**4,252**	27,647
Reduction in long term debt –		
Debentures and bank loans	**4,246**	4,050
Bonds and notes payable	**1,959**	22,157
Preferred shares purchased for cancellation less discount	**232**	231
Dividends to shareholders –		
Preferred shares	**5,415**	971
Common shares	**24,414**	23,113
	196,429	163,918
INCREASE IN WORKING CAPITAL	**163,829**	34,323
WORKING CAPITAL AT BEGINNING OF YEAR	**252,894**	218,571
WORKING CAPITAL AT END OF YEAR	**$416,723**	$252,894

See accompanying notes to consolidated financial statements

Auditors' report

To the Shareholders of
Dominion Foundries and Steel, Limited:

We have examined the consolidated statement of financial position of Dominion Foundries and Steel, Limited as at December 31, 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in accounting for joint ventures as explained in note 1(a).

Hamilton, Canada,
January 27, 1978

CLARKSON, GORDON & CO.
Chartered Accountants

Notes to consolidated financial statements

December 31, 1977

1. Summary of principal accounting policies –

The principal accounting policies followed by the Company are summarized to facilitate review of the consolidated financial statements:

a) Basis of consolidation –

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, as well as the Company's pro-rata share of the assets, liabilities and expenses of its joint venture activities (Sherman Mine, Wabush Mines, Eveleth Expansion Company and Baycoat Limited).

In 1977, the Company changed its method of accounting for its interest in a partnership (Eveleth Expansion Company) and a corporate joint venture (Baycoat Limited) from the equity method to the proportionate consolidation method. The use of the proportionate consolidation method for all joint venture interests better reflects the activities and substance of the Company's operations. This change (which has no effect on net income) has been given retroactive effect and the 1976 comparative figures have been restated.

All significant inter-company transactions are eliminated.

b) Translation of foreign currencies –

Foreign currency balances, including the accounts of the Company's foreign operation, are translated into Canadian dollars at the December 31, 1977 rate of exchange for working capital items and at historical rates for all long term amounts. Actual exchange rates in effect during the year are used for all revenue and expense items (except for depreciation and amortization which is translated at historical rates). The resulting translation gains or losses are reflected in income.

c) Inventories –

Inventories of materials, supplies, work-in-process and finished products are valued at the lower of average cost and net realizable value. Physical inventory quantities are determined at least annually by actual examination, or for certain raw materials, by aerial survey.

d) Fixed assets and related investment tax credits –

Fixed assets are recorded at their historical cost, which includes the cost of installation. Costs to bring a mineral property into production are capitalized as part of the cost of the property.

Depreciation is computed generally on the straight-line method applied to the cost of the assets at rates based on their estimated useful life, as follows:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive	20 to 25%
Mining facilities	4½ to 5%

Investment tax credits related to fixed asset expenditures are recorded as a reduction of the cost of fixed assets purchased.

e) Relines and maintenance costs –

The cost of relining blast furnaces is accrued on a unit of production method over the life of the existing lining.

Repairs, maintenance, research, development, current stripping at mines and quarries and start-up costs are expensed as incurred.

f) Income taxes –

The provision for income taxes is reduced by statutory deductions associated with mineral production and processing, and with inventory allowances.

Income tax regulations permit the deduction of certain costs (principally depreciation) at a more rapid rate than the Company uses in its accounts. The tax effect of these timing differences is recognized in the accounts as "income tax allocations relating to future years".

g) Revenue recognition –

Revenues from products and services and related costs are reflected in income when goods are shipped.

h) Retirement plans –

The Company has funded retirement plans covering substantially all of the employees. Pension costs charged against income during the year, based on amounts estimated by independent actuaries, include amounts for current and past service. Costs for unfunded past service will be amortized over periods not exceeding fifteen years.

i) Profit sharing on steelmaking operations –

For eligible employees involved in steelmaking operations, the Company pays 11% of steelmaking profits annually to The Employees' Savings and Profit Sharing Fund and The Deferred Profit Sharing Plan.

2. Inventories –	1977	1976
Materials and supplies	$153,946,000	$126,628,000
Work-in-process and finished products	126,752,000	99,659,000
	$280,698,000	$226,287,000

3. Fixed assets (including joint venture net assets, 1977 – $110,141,000; 1976 – $111,474,000) –

	1977	1976
Manufacturing facilities and equipment, at cost	$1,059,417,000	$ 906,456,000
Mining facilities, at cost	197,049,000	193,662,000
	1,256,466,000	1,100,118,000
Less accumulated depreciation	475,144,000	431,896,000
	$ 781,322,000	$ 668,222,000

4. Investments –	1977	1976
Investments and advances to coal companies, at cost	$2,377,000	$4,661,000
Notes, mortgage bonds and shares	2,493,000	2,548,000
	$4,870,000	$7,209,000

5. Long term debt –

	1977	1976
Sinking fund debentures –		
6½% due May 15, 1987	$ 24,929,000	$ 26,638,000
9% due February 1, 1991	42,090,000	44,507,000
10% due June 1, 1994	49,355,000	49,355,000
10⅞% due May 15, 1995	60,000,000	60,000,000
10⅜% due March 15, 1996	60,000,000	60,000,000
9⅜% due February 15, 1997	75,000,000	—
Eveleth Expansion Company first mortgage bonds (proportionate share) –		
9½% due 1995 (U.S. $31,200,000)	31,574,000	31,574,000
10% due 1995 (U.S. $7,680,000)	7,571,000	7,571,000
Revolving bank loan –		
BeachviLime Limited	3,800,000	1,700,000
Baycoat Limited (proportionate share)	4,250,000	3,738,000
Term bank loan of Prudential Steel Ltd.	510,000	630,000
Outstanding at December 31	359,079,000	285,713,000
Less current requirements	2,079,000	120,000
	$357,000,000	$285,593,000

Requirements for repayment within the next five years excluding revolving bank credit are as follows:

1978 – $2,079,000; 1979 – $3,815,000; 1980 – $8,289,000; 1981 – $12,782,000; 1982 – $12,692,000.

The following revolving bank credits (that are not repayable until their termination dates) are available:

Dofasco –

$100,000,000 terminating December 31, 1982 (none of which is being used at December 31, 1977) with interest at the rate of ⅜ of 1% in excess of the prime commercial rate. The Company has the option to take $25,000,000 of the total in U.S. funds.

BeachviLime Limited –

$10,000,000 terminating February 28, 1986, with interest at the rate of ½ of 1% in excess of the prime commercial rate.

Baycoat Limited (of which the Company has a 50% interest) –

$8,500,000 terminating August 9, 1984, with interest at the rate of 1% above the prime commercial rate.

6. Preferred shares –

Authorized – preferred shares issuable in series –

$100 preferred shares – 500,000
$ 25 preferred shares – 12,000,000

Issued less redeemed –	Outstanding	
	Shares	Dollars
$100 preferred shares 4¾% cumulative redeemable preferred shares, Series A	198,105	$ 19,811,000
$25 preferred shares Series 1, 2 and 3, having a variable dividend rate of ½ of the average prime bank rate plus 1¼%	6,000,000	150,000,000
		$169,811,000

The $100 preferred shares may be redeemed by the Company at a premium of $1 per share. The Company must establish a purchase fund to redeem or purchase an aggregate amount of 2% per year of the outstanding $100 preferred shares. During 1977, 3,550 shares were purchased for cancellation for $232,000 and therefore the Company has met its purchase requirements. In compliance with Section 62 of the Canada Corporations Act, retained earnings of $5,189,000 are designated as capital surplus.

The $25 preferred shares were approved by supplementary letters patent dated June 14, 1977. Series 1, 2 and 3 (consisting of 2,000,000 shares each) were issued during the year for cash. The Company must offer to purchase the shares at par plus accrued dividends on the initial retraction dates of July 15, 1984, 1985 and 1986 and thereafter on the fifth and tenth anniversary of such dates for Series 1, 2 and 3 respectively. The Company may purchase for cancellation all or any of these outstanding shares for a price not exceeding $26 per share prior to July 15, 1980; thereafter, they are redeemable at a reducing premium to July 14, 1983, after which they are redeemable at par. No $25 preferred shares were purchased for cancellation to December 31, 1977.

7. Common shares –

Authorized – 25,000,000 Class A convertible common shares without nominal or par value

– 25,000,000 Class B convertible common shares without nominal or par value

Issued – 14,971,130 Class A common shares
780,024 Class B common shares
15,751,154 total common shares

The Class A shares and Class B shares are convertible into each other on a share-for-share basis and rank equally in all respects, including dividends. In the case of the Class B shares, on which tax-deferred dividends may be declared, commencing April 1, 1977 the directors may declare these dividends out of 1971 capital surplus in an amount equal to the Class A dividend. However, tax-deferred dividends will not be permitted after December 31, 1978.

The 1974 employee stock option plan, which expires March 28, 1984, authorizes the directors to grant options to employees of the Company to purchase up to an aggregate of 480,000 of the unissued Class A shares. The number of shares covered by each option varies with changes in the optionee's remuneration and therefore cannot be determined until the last year of its term. At December 31, 1977, the following options to purchase an aggregate of 167,984 common shares were outstanding:

	Held by	
Option price per share	Directors and officers	Other employees
$28⅛	47,200	67,584
$25½	19,632	33,568

No options are held by directors who are not full-time employees.

The disclosure of fully diluted earnings per share, derived from the possible exercise of outstanding stock options, is omitted as the effect is immaterial.

Notes Continued

8. Retirement plans –

The estimated unfunded past service costs to be charged against income in future years amount to $23,000,000 (1976 – $24,000,000).

9. Anti-Inflation program –

The Company is subject to mandatory compliance with the Anti-Inflation Act. The provisions covering employee compensation and shareholder dividends will be phased out at various times during 1978 while those covering prices and profit margins expire at December 31, 1978. Management is of the opinion that the Company is in compliance at December 31, 1977.

10. Commitments –

The amount required to complete authorized capital projects is estimated to be $170,000,000 at December 31, 1977.

11. Sales –

Consolidated sales include sales by National Steel Car Corporation, Limited of $59,570,000 in 1977 (1976 – $110,794,000).

12. Statutory information –

Expenses for 1977 include remuneration of directors and officers as follows:

a)	Fees of twelve directors	$ 85,000
b)	Remuneration of fourteen officers (including four directors)	1,348,000
	Total remuneration of directors and officers	$1,433,000

The above includes directors' fees paid by National Steel Car Corporation, Limited of $2,700 and Prudential Steel Ltd. of $2,500.

Ten year summary of prod

Statement of income data

Sales*
Cost of sales (excluding the following items)*
Depreciation*
Employees' profit sharing*
Interest on long term debt (less discount on purchase of debentures)*
Income from investments*
Income before income taxes*
Income taxes*
Net income for year*

Financial position data

Working capital*
Fixed assets* – land, buildings and equipment, at cost
– accumulated depreciation
Total other assets*
Capital employed*
Long term debt*
Income tax allocations relating to future years*
Total shareholders' equity*

Statistical data

Production of ingots and castings – net tons*
Shipments of flat rolled products and steel castings – net tons
Net income per common share (after preferred dividends)
Net income – percent of sales
Net income – percent of average capital employed
Net income – percent of average common shareholders' equit
Net worth per common share
Dividends – per common share
– per $100 preferred share
– per $25 preferred share
Income reinvested in the business*
Capital expenditures – manufacturing*
Capital expenditures – mining*
Total dividends declared*
Number of holders of common shares
Percentage of common shares held in Canada
Average number of employees

*in thousands

Note: The years 1972 through 1976 have been restated to giv effect to the change in accounting policy instituted in 1977. See Note 1(a) of the Financial Statements.

ction and financial data

1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
$ 919,036	$ 904,958	$738,083	$681,636	$519,558	$443,775	$380,723	$331,658	$332,610	$280,128
$ 752,151	$ 739,144	$601,301	$524,741	$382,813	$333,585	$295,011	$247,988	$235,522	$197,226
$ 47,063	$ 42,108	$ 38,064	$ 35,119	$ 35,155	$ 33,077	$ 28,764	$ 26,246	$ 26,387	$ 24,570
$ 8,529	$ 8,652	$ 6,436	$ 11,107	$ 10,033	$ 6,774	$ 5,429	$ 5,623	$ 6,493	$ 5,893
$ 34,434	$ 23,736	$ 15,767	$ 9,678	$ 7,580	$ 9,053	$ 8,245	$ 3,977	$ 3,530	$ 4,867
$ 12,759	$ 4,981	$ 3,958	$ 6,811	$ 1,264	$ 537	$ 1,145	$ 1,578	$ 3,113	$ 2,302
$ 89,618	$ 96,299	$ 80,473	$107,802	$ 85,241	$ 61,823	$ 44,419	$ 49,402	$ 63,791	$ 49,874
$ 21,100	$ 29,600	$ 25,000	$ 37,400	$ 32,700	$ 25,700	$ 16,400	$ 16,300	$ 21,800	$ 11,500
$ 68,518	$ 66,699	$ 55,473	$ 70,402	$ 52,541	$ 36,123	$ 28,019	$ 33,102	$ 41,991	$ 38,374
$ 416,723	$ 252,894	$218,571	$163,490	$107,628	$103,559	$ 95,496	$ 78,751	$ 83,392	$ 91,510
$1,256,466	$1,100,118	$988,979	$866,203	$780,664	$736,868	$702,283	$618,838	$546,307	$501,156
$ 475,144	$ 431,896	$392,045	$357,014	$330,635	$296,625	$263,805	$236,215	$210,433	$184,378
$ 23,716	$ 25,054	$ 23,661	$ 12,248	$ 10,976	$ 11,137	$ 8,134	$ 7,501	$ 7,533	$ 7,557
$1,221,761	$ 946,170	$839,166	$684,927	$568,633	$554,939	$542,108	$468,875	$426,799	$415,845
$ 357,000	$ 285,593	$238,791	$135,211	$ 80,719	$112,963	$130,705	$ 80,530	$ 58,100	$ 68,624
$ 185,900	$ 169,600	$151,900	$133,000	$120,700	$113,100	$104,200	$ 94,750	$ 93,750	$101,256
$ 678,861	$ 490,977	$448,475	$416,716	$367,214	$328,876	$307,203	$293,595	$274,949	$245,965
3,333	3,335	3,053	3,060	3,036	2,773	2,468	2,322	2,279	2,180
2,596	2,652	2,348	2,455	2,362	2,175	1,811	1,787	1,815	1,645
$ 4.01	$ 4.17	$ 3.46	$ 4.41	$ 3.29	$ 2.25	$ 1.74	$ 2.07	$ 2.64	$ 2.41
7.5%	7.4%	7.5%	10.3%	10.1%	8.1%	7.4%	10.0%	12.6%	13.7%
6.3%	7.5%	7.3%	11.2%	9.4%	6.6%	5.5%	7.4%	10.0%	9.3%
12.9%	14.6%	13.2%	18.7%	15.8%	11.8%	9.7%	12.2%	17.2%	17.8%
$ 32.32	$ 29.89	$ 27.17	$ 25.15	$ 21.99	$ 19.69	$ 18.33	$ 17.48	$ 16.29	$ 14.43
$ 1.55	$ 1.46¾	$ 1.44	$ 1.26	$ .97½	$ .90	$ .90	$ .87½	$ .80	$ .70
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75
$ .744	—	—	—	—	—	—	—	—	—
$ 38,116	$ 42,615	$ 31,817	$ 49,577	$ 36,264	$ 21,057	$ 12,980	$ 18,470	$ 28,534	$ 26,443
$ 155,911	$ 85,749	$100,722	$ 85,116	$ 37,879	$ 30,134	$ 52,029	$ 69,873	$ 43,016	$ 18,449
$ 4,252	$ 27,647	$ 35,111	$ 9,162	$ 3,360	$ 3,043	$ 32,590	$ 3,122	$ 2,467	$ 3,115
$ 29,829	$ 24,084	$ 23,656	$ 20,825	$ 16,277	$ 15,066	$ 15,039	$ 14,632	$ 13,457	$ 11,931
15,196	15,298	15,932	16,110	16,272	16,629	17,958	19,511	20,183	20,444
97.1%	97.1%	97.4%	96.9%	96.4%	96.2%	95.7%	95.0%	94.2%	93.7%
11,300	11,500	11,700	11,500	10,600	9,700	9,300	8,600	8,600	7,800

Dominion Foundries and Steel, Limited

Subsidiaries	Percentage Ownership
National Steel Car Corporation, Limited, Hamilton, Ontario*	100.0%
Prudential Steel Ltd., Calgary, Alberta*	100.0%
BeachviLime Limited, Beachville, Ontario*	100.0%

Mining Interests	
Adams Mine, Kirkland Lake, Ontario*	100.0%
Sherman Mine, Temagami, Ontario*	90.0%
Wabush Mines,* comprising: Scully Mine, Wabush, Newfoundland Arnaud Pellets, Pointe Noire, Quebec	16.4%
Eveleth Expansion Company, Minnesota*	16.0%
Itmann Coal Company, West Virginia†	9.0%

Other Investments	
Baycoat Limited, Hamilton, Ontario*	50.0%
Arnaud Railway Company, Quebec†	16.4%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%

Transfer Agents and Registrars

National Trust Company, Limited –
Toronto, Montreal, Vancouver, Winnipeg, Calgary

Canada Permanent Trust Company – Halifax

The Bank of Nova Scotia Trust Company of New York – New York

*Ownership interest consolidated in Financial Statements
†Included under "Investments" in Financial Statements

Our product is steel...our strength is people

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